

ATLANTA OFFICE

Economic Indicators

	Q2 17	Q2 18	12-Month Forecast
Atlanta Employment	2.7M	2.8M	▲
Atlanta Unemployment	4.6%	4.1%	▼
U.S. Unemployment	4.3%	3.8%	▼

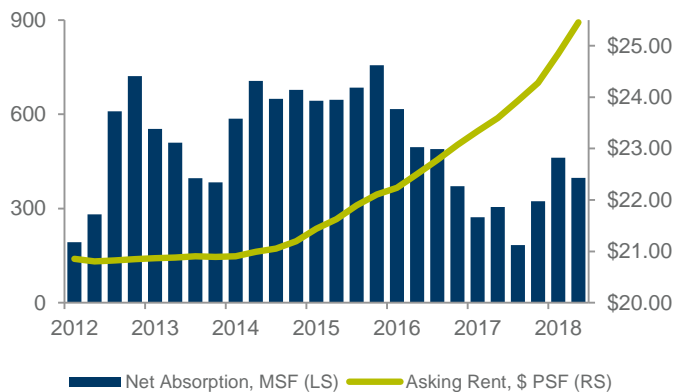
Numbers above are quarterly averages

Market Indicators (Overall, All Classes)

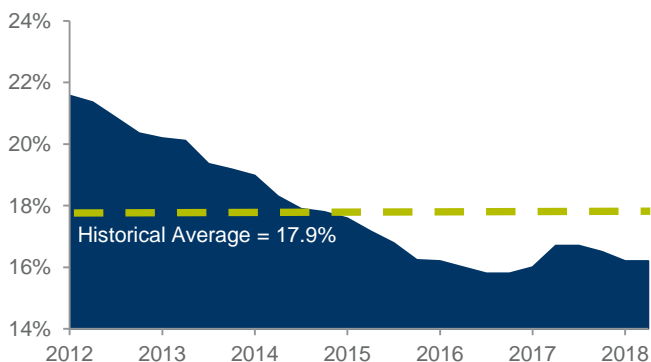
	Q2 17	Q2 18	12-Month Forecast
Vacancy	16.7%	16.2%	▲
Net Absorption (sf)	405k	147k	▲
Under Construction (sf)	3.2M	2.3M	▼
Average Asking Rent*	\$24.10	\$26.53	▲

*Rental rates reflect gross asking \$psf/year

Overall Net Absorption/Overall Asking Rent
4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

The Atlanta economy continued to expand through the second quarter of 2018 and gained 40,750 jobs year-over-year (YoY), up 1.5% compared to 1.6% YoY nationwide. Atlanta's unemployment rate fell from 4.6% in the second quarter of 2017 to 4.1% in the second quarter of 2018. The 50-basis-point (bp) improvement in Atlanta's unemployment rate over the past year equaled that of the nation, which reached a historic low of 3.8% as of preliminary second quarter data.

Market Overview

Records continue to fall with each new quarter in the Atlanta office market. Overall average asking office rents rose to \$26.53 per square foot (psf), up 2.9% over the first quarter to a 10th consecutive record high. YoY office rent growth of 10.1% in the second quarter of 2018 surpassed the first quarter's record-shattering 9.7%. Strong absorption and record low vacancy coupled with limited new construction is driving rent growth, particularly in the Midtown and Downtown submarkets.

The divide between quality CBD office product and suburban and non-Class A product continues to widen. Class A absorption in the CBD submarkets year-to-date (YTD) stands at 770,049 square feet (sf), while the remainder of the B & C market has negative absorption (-28,251 sf). CBD leasing activity fell for the third straight quarter (722,894 sf in the second quarter) as inventory has dried up and large availabilities are scarce. However, of the 2.3 million square feet (msf) of office space under construction, 93.7% is located in the CBD (86.0% in Midtown alone). 54.9% of the CBD speculative construction (1.5 msf) is pre-leased.

Average office rents in the CBD submarkets (Downtown, Midtown, and Buckhead) surpassed \$31.00 psf for the first time to a third consecutive record high (\$31.75 psf). Overall rent growth in the CBD was a blistering 11.1% YoY. All three CBD submarkets had record rents, with Buckhead's \$34.19 psf slightly above Midtown's \$33.82 psf. Downtown's \$28.17 psf average rents are up 19.7% YoY. Suburban office rents rose for the fifth consecutive quarter to another record high (\$23.92 psf; 9.8% YoY).

In the second quarter of 2018, overall office vacancy held steady at 16.2% and was down 0.5% YoY. Vacancy was largely unchanged in both the CBD (15.0%, down 1.3% YoY) and Suburban submarkets (16.9%, unchanged YoY).

The CBD has the lowest amount of vacant space (7.5 msf) since the second quarter of 2007, although CBD office inventory has expanded by over 20% in the intervening years.

The Atlanta office market posted 147,164 sf of positive absorption in the second quarter, bringing up the YTD net absorption to 616,891 sf. Meanwhile, leasing activity has exceeded the 2017 YTD total of 4.5 msf by 70,000 sf and remains on pace to surpass 8.0 msf for the ninth consecutive year. Suburban leasing activity of 1.0 msf was a considerable drop from the first quarter's impressive 1.9 msf.

RENT GROWTH IN THE SECOND QUARTER OF 2018 WAS UNPRECEDENTED: ATLANTA'S 10.1% YOY RENT GROWTH SURPASSED THE FIRST QUARTER'S RECORD-SHATTERING 9.7%.

Outlook

As the office market fundamentals, economic growth and in-migration, remain strong, the Atlanta office market's remarkable run should continue through 2018 and beyond. Insatiable demand resulting from a strong economy and the accompanying war for talent coupled with limited vacancy has caused record rent growth, which will price many prospective tenants out of the CBD submarkets. This should lead to a recovery for suburban submarkets struggling to rebound from several large corporate relocations.

Office Highlights

- Despite negative absorption YTD (-124,907 sf) and a drop in leasing activity, vacancy held steady in suburban markets while breaking records for overall average rent (\$23.92 psf) and YoY rent growth (9.8%).
- The CBD's 11.1% YoY rent growth was concentrated in Downtown (up 19.7% YoY) and Midtown (up 17.3% YoY). Buckhead, with the CBD's highest rents (\$34.19 psf), showed only 1.1% YoY rent growth.

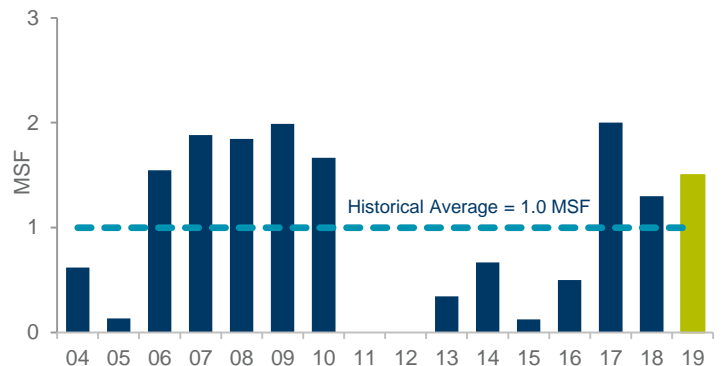
Atlanta Investment Sales

AVERAGE CAP RATE FELL 950 BASIS POINTS YEAR-OVER-YEAR TO 6.2%



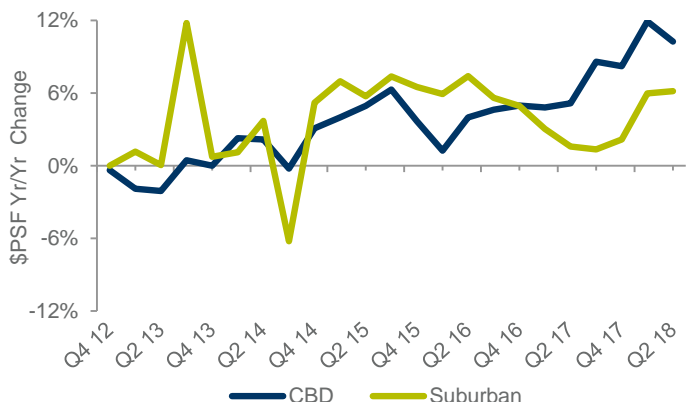
New Supply

NEW SUPPLY IN Q2 2018 SURPASSES HISTORICAL AVERAGE



CLASS A Asking Rent Trend

CBD AND SUBURBAN AVERAGE ASKING RATES CONTINUE TO CLIMB



MARKETBEAT

Atlanta

Office Q2 2018



SUBMARKET	INVENTORY	OVERALL VACANCY RATE	DIRECT VACANCY RATE	YTD LEASING ACTIVITY*	UNDER CONSTRUCTION	YTD DIRECT NET ABSORPTION	YTD OVERALL NET ABSORPTION	OVERALL WEIGHTED AVG. ALL CLASSES GROSS R.R.**	DIRECT WEIGHTED AVG. CLASS A GROSS R.R.**
Downtown	15,063,544	19.4%	18.2%	498,155	61,000	150,629	150,629	\$28.17	\$30.62
Midtown	17,755,130	11.5%	10.5%	434,206	1,962,270	434,136	378,337	\$33.82	\$36.02
Buckhead	17,436,833	14.6%	13.3%	692,205	115,905	178,838	212,832	\$34.19	\$35.39
CBD	50,255,507	15.0%	13.8%	1,624,566	2,139,175	763,603	741,798	\$31.75	\$33.68
Central Perimeter	22,584,789	15.9%	14.5%	1,237,849	0	46,174	48,341	\$28.14	\$30.72
Georgia 400 Corridor	18,100,929	14.9%	14.0%	303,403	43,941	132,060	24,326	\$23.24	\$25.98
I-75/Northside Drive	1,629,500	15.4%	14.2%	31,734	0	(5,796)	(5,796)	\$29.93	\$34.82
NW/Cumberland/Galleria	18,305,137	18.5%	18.0%	558,779	0	168,995	118,527	\$24.72	\$27.54
GA 120/Johnson Ferry Rd	232,533	10.8%	10.8%	9,363	0	0	0	\$21.55	\$0.00
I-75 North/Marietta	3,345,017	7.4%	5.2%	105,067	0	22,845	12,040	\$20.60	\$25.16
NORTHWEST SUBTOTAL	23,512,187	16.7%	15.9%	704,943	0	186,044	124,771	\$24.77	\$27.61
I-85/I-285/NE Atlanta	6,991,374	11.1%	11.0%	148,550	0	6,659	6,659	\$20.71	\$25.00
I-85 NE/Gwinnett Co./I-985	7,398,384	23.6%	21.9%	191,135	27,944	(216,643)	(331,764)	\$18.96	\$21.59
Peachtree Corners	5,816,221	20.2%	20.0%	134,973	20,000	(11,863)	(11,863)	\$18.65	\$21.19
NORTHEAST SUBTOTAL	20,205,979	18.3%	17.6%	474,658	47,944	(221,847)	(336,968)	\$19.23	\$21.77
Decatur	1,321,458	9.6%	9.4%	59,102	0	13,440	13,440	\$22.23	\$31.59
Northlake/Stone Mountain	2,842,225	31.1%	21.9%	13,576	0	(17,493)	(17,493)	\$22.61	\$21.45
NORTHLAKE/ DECATUR SUBTOTAL	4,163,683	24.2%	17.9%	72,678	0	(4,053)	(4,053)	\$22.57	\$23.46
I-20 West	522,244	11.2%	11.0%	0	0	5,248	5,248	\$20.50	\$0.00
Airport/South Atlanta	2,985,469	18.7%	18.6%	99,190	51,272	13,428	13,428	\$20.28	\$21.89
SOUTH SUBTOTAL	3,507,713	17.5%	17.4%	99,190	51,272	18,676	18,676	\$20.30	\$21.89
NON-CBD	92,075,280	16.9%	15.7%	2,892,721	143,157	157,054	(124,907)	\$23.92	\$27.41
ATLANTA TOTALS	142,330,787	16.2%	15.0%	4,517,287	2,282,332	920,657	616,891	\$26.53	\$30.08

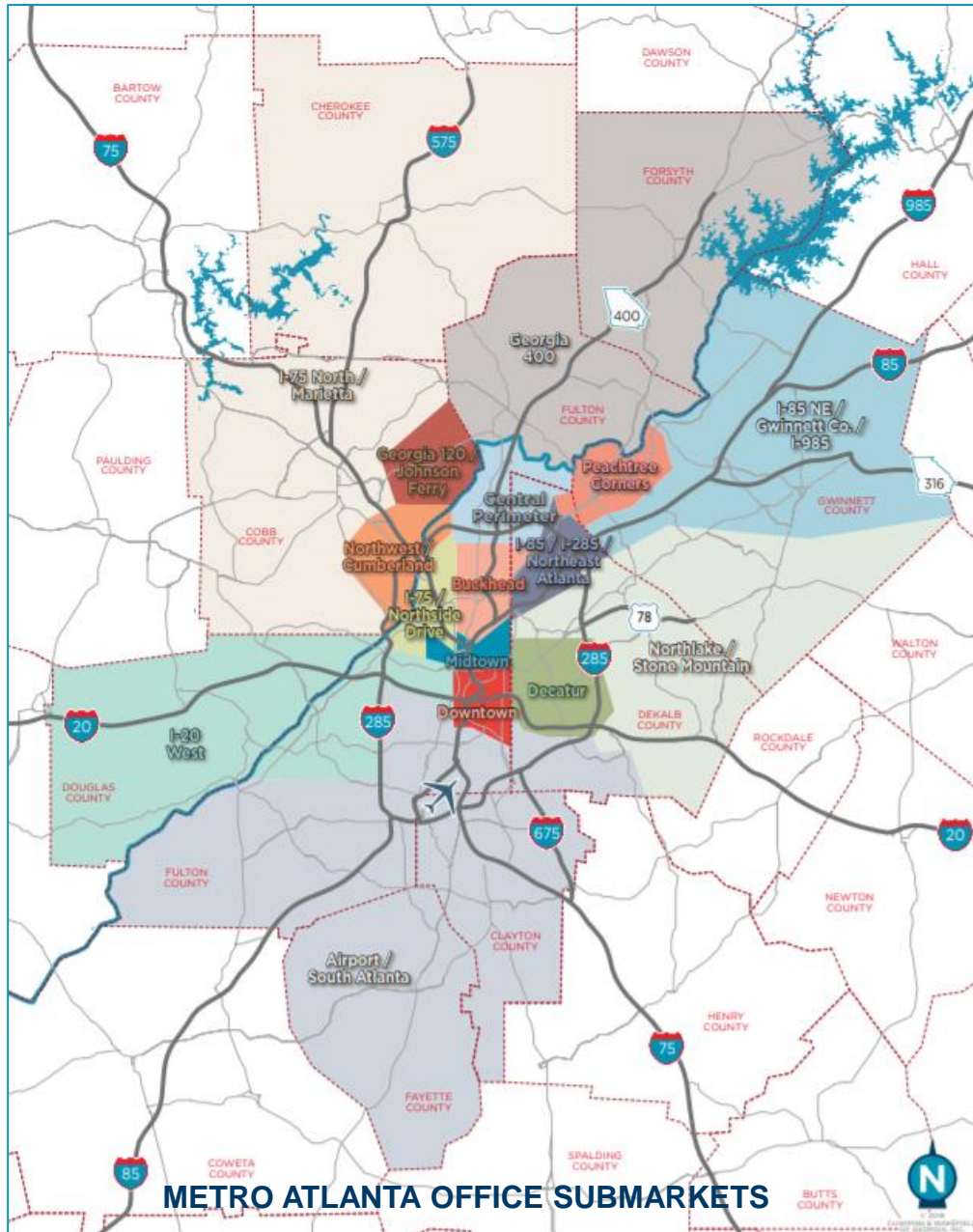
*Leasing Activity does not include renewals; **Rental rates reflect gross asking \$psf/year

Key Lease Transactions Q2 2018

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
900 Ashwood Parkway	80,746	Oldcastle	Renewal	Central Perimeter
1950 Spectrum Circle	68,023	BlueLinx Corporation	New Lease	NW/Cumberland/Galleria
100 Peachtree Street	58,223	CallRail	New Lease	Downtown
5770 Powers Ferry Road	57,078	Superior Essex	New Lease	NW/Cumberland/Galleria

Key Sales Transactions Q2 2018

PROPERTY	SF	SELLER / BUYER	PRICE / \$PSF	SUBMARKET
3100 Cumberland Circle	419,456	Crocker Partners/ PCCP	\$68,250,000 / \$163	NW/Cumberland/Galleria
1718-1720 Peachtree Street	366,232	Atlanta Property Group/ Noro Management	\$62,200,000 / \$170	Midtown
99, 112 Krog Street	104,825	Paces Properties/ Asana Partners	\$45,800,000 / \$437	Downtown



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